



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

10-23

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Governor and
Lieutenant Governor*

*For the Two Fiscal Years Ended
June 30, 2010*

NOVEMBER 2010

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

November 2010

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2010. Our report contains five recommendations to the office and one disclosure issue. Two recommendations concern improving the office's internal control monitoring over financial activity and compliance with federal requirements. Three recommendations concern compliance, or documentation of compliance, with state laws regarding extradition expense, supplemental appropriation transfers, and spending nongeneral fund money first. The office's response to each recommendation is contained at the end of the report, beginning on page B-1. The disclosure issue concerns office activities funded by other state agencies.

We thank the Governor, Lieutenant Governor, and their staffs for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

**Office of the Governor and
Lieutenant Governor**

Governor	Brian Schweitzer
Lieutenant Governor	John Bohlinger
Chief of Staff	Vivian Hammill
Centralized Services Administrative Officer	Rosemary Harmon

For additional information concerning the Office of the Governor and Lieutenant Governor, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Office of the Governor and Lieutenant Governor

For the Two Fiscal Years Ended June 30, 2010

NOVEMBER 2010

10-23

REPORT SUMMARY

The Office of the Governor and Lieutenant Governor (office) is provided for in Montana's constitution. It oversees and directs the activities of executive branch agencies; is responsible for planning, preparing, and administering the state budget; provides citizens access to state government; protects the rights of the mentally ill and developmentally disabled; and serves as the state's liaison with state Indian tribes.

Context

The office expended \$6.6 million in fiscal year 2008-09 and \$6.2 million in fiscal year 2009-10. The fiscal year 2008-09 expenditures included \$630,000 to replace the engines on the office's aircraft. Over 97 percent of the office's funding is from the state's General Fund and over two-thirds of its expenditures are for personal services. The office was authorized 60.07 full-time equivalent (FTE) positions in fiscal year 2009-10, 30 of which are exempt.

The office categorizes its expenditures in nine programs, the largest of which are the Executive Office and Office of Budget and Program Planning. The other programs are the Lieutenant Governor's Office, Citizens' Advocate Office, Mental Disabilities Board of Visitors, Coordinator of Indian Affairs, Air Transportation, Executive Residence, and Centralized Services.

Results

The first two sections in our audit report discuss areas where the Governor's Office should improve its monitoring of internal controls over office financial transactions and other agencies' compliance with federal ARRA State Fiscal Stabilization Fund requirements. Expenditure transactions were not approved in accordance with Governor's Office policy. The office had not fully implemented its ARRA State Fiscal Stabilization Fund monitoring plan and protocol to comply with federal requirements by June 30, 2010.

The next three sections in our report discuss areas where the office did not comply with state law. The office does not appropriately pay travel expenses of agents returning fugitives from justice. Supplemental appropriation authority of \$110,000 was retransferred back to fiscal year 2010-11 contrary to state law. Over the past eight years, the office should have expended \$45,694 in its Air Transportation Special Revenue Fund account prior to General Fund money.

Finally, we disclose three methods the office uses to obtain over \$230,000 each fiscal year from other state agencies to fund its activities.

Recommendation Concurrence	
Concur	5
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (Governor's Office or office) for the two fiscal years ended June 30, 2010. The objectives of the audit were to:

1. Determine whether the office complied with laws and regulations having a direct and material effect on the financial schedules, and other selected applicable laws and regulations, during the two fiscal years ended June 30, 2010.
2. Obtain an understanding of the office's control structures to the extent necessary to support the audit of its financial schedules and, where necessary, make recommendations for improvement in the office's management and internal controls.
3. Determine the status of prior audit recommendations.
4. Determine whether the office's financial schedules present fairly its results of operations and changes in fund balances for each of the fiscal years ended June 30, 2010, and 2009.

In accordance with §5-13-307, MCA, we analyzed the cost to implement the recommendations and believe the costs are not significant to the office.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #2 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is one or more control deficiencies that affects management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 below summarizes the status of significant deficiencies and material weaknesses we identified during our audit.

Table 1 <u>Summary of Internal Control Deficiencies</u>			
Subject	Significant Deficiency	Material Weakness	Page
Payment and coding approval	Yes	No	5
ARRA State Fiscal Stabilization Fund Compliance	Yes	No	6

Areas of concern, if any, regarding compliance with laws and regulations and state accounting policy deemed not to have a significant effect on the successful operations of the office's programs are not specifically included in this report, but have been discussed with management.

Background

The office was created upon acceptance of Montana into the Union in 1889 and is provided for in Article VI of the Constitution of the State of Montana. The office was authorized 60.07 full-time equivalent (FTE) positions in fiscal year 2009-10. Of those positions, there are 11 statutorily exempt positions and 19 personal staff exempt positions. These positions are exempt from the provisions of the state classification law. The following paragraphs discuss the various programs administered by the office.

Executive Office (21.63 FTE) - provides administrative, legal, and press support for the office. The executive office oversees and directs the activities of executive branch agencies. In addition, the executive office administers the Office of Economic Development.

Lieutenant Governor (3.94 FTE) - performs duties prescribed by law and those delegated by the Governor.

Centralized Services (4.00 FTE) - provides centralized services support for the office.

Office of Budget and Program Planning (19.00 FTE) - assists the governor in planning, preparing, and administering the state budget; develops and evaluates alternative program plans for providing state government services; and acts as the lead executive branch agency for compliance with the federal Single Audit Act.

Citizens' Advocate Office (1.50 FTE) - provides accessibility to state government for Montana citizens by providing information to citizens and acting as a referral service to state agencies.

Mental Disabilities Board of Visitors (5.00 FTE) - protects the rights of the mentally ill and the developmentally disabled. The Mental Health Ombudsman is also accounted for in this program.

Executive Residence Operations (1.50 FTE) - maintains the governor's official residence.

Air Transportation (1.50 FTE) - provides transportation for the governor and the governor's staff. The governor's aircraft is available to other state agencies for a fee. Fee revenues are used for aircraft operations and maintenance costs.

Coordinator of Indian Affairs (2.00 FTE) - serves as the governor's liaison with the state Indian tribes, provides information and policy support on issues confronting Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2008, contained four recommendations to the office. The office implemented three and partially implemented one of the recommendations. The recommendation partially implemented relates to an internal control deficiency. In our prior report, we recommended the office establish internal control procedures to prevent or detect misstatements related to proper account coding and complete its implementation of internal control procedures by monitoring and testing its internal controls. This issue is discussed in this report, beginning on page 5.

Chapter II – Findings and Recommendations

Internal Control Monitoring

One of the five components of internal control is monitoring, a process that assesses the quality of internal control performance over time. State accounting policy outlines management's responsibility for establishing and monitoring agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. To assist agencies in the process, the Department of Administration issued a guide that directs agencies to monitor and test their controls and evaluate and report the results of that testing. Federal regulations also require the office to establish and maintain internal control procedures, including monitoring, designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Transaction Payment and Coding Approval

The office did not monitor and test its internal accounting controls until June 2010, when controls over its nonpersonal service expenditures were tested.

The office has developed written internal control procedures for its operations. These procedures require nonpersonal service expenditure transactions be approved for payment by the appropriate program manager and transaction documents be approved by an authorized person other than the preparer. The internal accounting controls identified by the Governor's Office in its Internal Control Handbook were not monitored or tested, as required by state policy, until June 2010. Had the office monitored and tested internal controls over its processes, it could have identified the following lapses in its internal control procedures and taken timely action to mitigate the risk of inappropriate transactions.

We tested forty-seven transactions to determine if they were approved for payment by the appropriate program manager and found four were not. Twenty-eight transactions were tested to determine if the transaction document was approved by an authorized person other than the preparer and we found five were not. We also identified 251 General Ledger documents during the audit period that were entered and approved on the state's accounting system by the same person. These results increase the risk that inappropriate expenditure payments and transaction coding errors on the office's accounting records will be made and not be detected in a timely manner.

RECOMMENDATION #1

We recommend the Governor's Office:

- A. *Monitor and test internal controls as required by state accounting policy.*
 - B. *Comply with its established control policy to have separate people enter and approve transaction journals, and a program manager approve each payment.*
-

State Fiscal Stabilization Fund (SFSF) Compliance

The office did not comply with federal requirements to monitor internal controls to reasonably ensure compliance with federal laws, regulations, and program compliance requirements for the state's two federal SFSF programs until June 2010.

Five state agencies are expected to expend nearly \$149 million dollars under the American Recovery and Reinvestment Act of 2009 (ARRA) for the programs in the SFSF during the 2011 biennium. The objectives of internal control pertaining to the compliance requirements for federal programs are that (1) transactions are properly recorded and accounted for to permit the preparation of reliable financial reports, maintain accountability over assets, and demonstrate compliance with applicable requirements; (2) transactions are executed in compliance with applicable requirements; and (3) funds, property, and other assets are safeguarded against loss from unauthorized loss or disposition.

When the U.S. Department of Education reminded states of the federal monitoring requirements applicable to the SFSF program in August 2009, it said each state must have a comprehensive monitoring plan and protocol to review activities supported with SFSF funds. We notified the Governor's Office of its lack of monitoring procedures related to federal reporting requirements for Government Services stabilization funds, particularly to ensure funds are spent on only allowable costs, in December 2009. At this time, we also notified the office that it did not appear to have adequate procedures for verifying drawdown amounts reported as Total Federal Amount ARRA Funds Received/Invoiced. The office responded in January 2010 that each agency was considered to be a prime recipient of the funds and subject to the terms and conditions of the grant award, a copy of which OBPP had provided to each agency.

Office personnel said the U.S. Department of Education later informed the office that it could not delegate responsibility to the other state agencies without putting a monitoring plan into place. In February 2010, the U.S. Department of Education requested each state to provide the department a copy of its monitoring plan and protocols and a copy of its preliminary monitoring schedule by March 12, 2010. The office developed a monitoring plan and protocol, which it submitted by the required date and began to implement in June 2010.

Office personnel reviewed the protocols completed by the five affected state agencies and followed up with clarifying questions to three agencies on June 30, 2010. Although one agency responded that same day, two agencies did not respond in writing until September 3, 2010, in response to follow-up prompted by an audit question. The office also implemented procedures to verify the drawdown amount reported and to review support for other reported amounts beginning with the December 31, 2009, quarterly report. The office should fully implement its monitoring plan and protocol to reasonably ensure the state's compliance with the federal SFSF requirements.

RECOMMENDATION #2

We recommend the Governor's Office implement its State Fiscal Stabilization Fund monitoring plan and protocol to comply with federal requirements.

State Compliance

During our audit we identified the following areas where the office can improve compliance and documentation of compliance with state laws and accounting policy.

Extradition Expense

The Governor's Office does not have documentation to support it complied with state law regarding the expenses of bringing fugitives back to this state.

Section 46-30-411(2), MCA, requires an agent of this state authorized to return a fugitive from justice to this state be paid travel expenses incurred in returning the fugitive, as provided in §§2-18-501 through 2-18-503, MCA. We found the agents' invoices do not contain sufficient detail to determine if the agents claimed (and therefore were paid) travel expenses in accordance with this requirement. The Governor's Office matches invoices to the quotes previously approved, approves the invoices for payment, and forwards the invoices to the Department of Corrections

for payment from a General Fund appropriation for that purpose. According to office personnel, the office approved invoices totaling \$416,500 to extradite 200 fugitives to this state during fiscal years 2008-09 and 2009-10, at an average cost of \$2,082 per extradition.

Office personnel told us it is standard practice for a county sheriff calling the Governor's Office to obtain permission to extradite a fugitive to provide the office quotes from agents regarding the cost to transport the fugitive. If the Governor's Office approves the extradition, the sheriff is told which quote to accept. The quotes and the subsequent invoices usually do not detail charges for travel, personal services, and other costs. According to office personnel, it is industry practice to quote and bill a lump sum amount or a rate per mile transported. However, this practice does not provide the information the office needs to document compliance with state law.

RECOMMENDATION #3

We recommend the Governor's Office document compliance with state law regarding extradition expenses.

Appropriation Transfer

During July 2010, the Office of Budget and Program Planning (OBPP) inappropriately transferred \$110,000 of supplemental appropriation authority from fiscal year 2009-10 to fiscal year 2010-11.

On July 13, 2010, the Governor approved a supplemental appropriation of up to \$800,000 to transfer an appropriation of the Office of the Public Defender (OPD) from fiscal year 2010-11 to fiscal year 2009-10. On July 14, 2010, the OBPP processed a document transferring \$400,000 of OPD's appropriation authority from fiscal year 2010-11 to fiscal year 2009-10, thus setting the supplemental appropriation amount. On July 22, 2010, the OBPP processed a document to transfer \$110,000 of the authority moved to fiscal year 2009-10 back to fiscal year 2010-11.

OBPP personnel believed they had complied with all statutes pertaining to these supplemental appropriation transactions. However, §17-7-139(1), MCA, provides that if "... money appropriated for a fiscal year is transferred to another fiscal year, the money may not be retransferred, except that money remaining from projected costs for spring fires estimated in the last quarter of the first year of a biennium may be retransferred."

The language of this statute clearly prohibits a transfer backward across fiscal years followed by a transfer forward. OBPP personnel told us they plan to reverse the \$110,000 transfer.

RECOMMENDATION #4

We recommend the Governor's Office comply with the requirement of state law to not retransfer appropriation authority previously transferred from one fiscal year to another.

Expenditure of Nongeneral Fund Money First

The Governor's Office did not expend \$45,694 in its Air Transportation account in the State Special Revenue Fund prior to General Fund money during fiscal years 2003-04 through 2009-10.

In fiscal year 2002-03, the Governor's Office requested, and the Department of Administration approved, a separate State Special Revenue account for the Air Transportation program to account for funds earned by charter of state aircraft to other agencies. This activity had been recorded previously in a State Special Revenue account along with other office activity. The separate account was not created by state law; it was established administratively. The Governor's Office received budget authority during the period from 2002-03 to 2009-10 in both the General and State Special Revenue Funds to operate the Air Transportation program. Our review of House Bill 2 and Legislative Finance Division Fiscal Reports applicable to that period indicate no restrictions on the use of the Air Transportation State Special Revenue account.

Section 17-2-108(1), MCA, requires the office to "... apply expenditures against appropriated nongeneral fund money whenever possible before using general fund appropriations." Based on our analysis, the Governor's Office should have used \$45,694 of its State Special Revenue Fund authority prior to its General Fund authority over the past eight years.

Governor's Office personnel told us the Air Transportation Special Revenue account was established to build a reserve from other agencies' use of the office's aircraft to cover unexpected repair expenses, so they do not believe that the nongeneral fund money first requirement of §17-2-108(1), MCA, applies. They provided documentation from the Montana Budget Analysis and Reporting System stating "The legislature approved state special revenue authority allowing the Governor's Office to spend funds

recovered from other state agencies for use of the aircraft. Funds are used for the direct cost of the charters, while a majority of the revenue is deposited into a state special revenue account as a reserve for engine overhaul when needed.” Office personnel also stated that this purpose of the fund has been communicated each year during the office’s budget hearings.

The last time the office charged repair and maintenance expenditures to the Air Transportation Special Revenue account was in fiscal year 2003-04. Expenditures charged to the account in subsequent fiscal years were for gasoline. Expected repair and maintenance expenditures for the Air Transportation program have been budgeted and paid from the General Fund. For example, the office charged Air Transportation program repair and maintenance expenditures of \$126,334 and \$74,304 in fiscal years 2009-10 and 2008-09, respectively, to the General Fund. Additionally, the office incurred \$630,000 in budgeted General Fund equipment expenditures in the Air Transportation program during fiscal year 2008-09 to replace the engines in the office’s aircraft. The activity in the Air Transportation Special Revenue account for the past six fiscal years does not support a need for a reserve for engine overhaul.

RECOMMENDATION #5

We recommend the Governor’s Office spend nongeneral fund money first for Air Transportation program costs in accordance with state law.

Chapter III – Disclosure Issue

Office Activities Funded by Other Agencies

The Governor's Office enhances its program funding through administrative transfers of appropriation authority from other executive branch agencies, employees paid by other executive branch agencies and loaned to the office, and bills paid on its behalf by other executive branch agencies.

Ongoing Administrative Appropriation Transfers

The office has established agreements with other state agencies that provide funding for two office activities through ongoing administrative appropriation transfers from various funds at different executive branch agencies. These activities are the Governor's Math & Science Initiative and the Governor's American Indian Nations (GAIN) Council and Attorney. The base funding for these office activities is included in the budget of other agencies rather than in the office's budget. The agencies record expenditures against their base appropriations to transfer the money to the Governor's Office. The Governor's Office records revenue and establishes an administrative appropriation against which the cost of these activities is expended. This effectively shifts the approval authority for funding of these programs from the legislature to the governor. This has created funding sources for these programs that side-step the budgeting process, as the administrative appropriation transfers are neither one time nor incidental. This is not a process that is prohibited by law; however, it is a process that allows continuing programs to be funded without legislative approval. Through the administrative appropriation process, the office funded expenditures of \$110,653 and \$137,205 in fiscal years 2008-09 and 2009-10, respectively, for its GAIN and Math & Science Initiative activities.

Employees Loaned by Other Agencies

As reported in our prior audit, employees loaned to the office included lawyers, administrative assistants, public information officers, a policy advisor, and an energy advisor. The salaries and benefits of these loaned employees were not paid by the Governor's Office, but by the other state agencies. These loaned employees worked anywhere from one day to several years on loan to the office. Many of the employees were loaned to the office to provide assistance during busy times. Others were loaned because officials believed the position was best placed at the office, even though another state agency received funding for the position. The office estimates the salaries and benefits of employees loaned to the office were approximately \$99,693 and \$77,761 in fiscal years 2008-09 and 2009-10, respectively.

Bills Paid by Other Agencies

The office reduced its membership dues expenditures of \$36,000 to the Western Governors Association by \$21,000 in each fiscal year 2008-09 and 2009-10 after billing and receiving \$21,000 in “reimbursement” from the Montana Department of Transportation (MDT). Office personnel indicated MDT had paid a portion of the dues since fiscal year 2001-02.

Summary

As a result of these funding mechanisms, the office’s accounting records do not completely reflect its activities and costs and the accounting records of the other executive branch agencies reflect activities and costs those agencies did not incur. Since these costs are used as a basis for future budgets, the inappropriate cost allocations are built into future funding levels. Because these mechanisms for funding office activity are not addressed in current statute or policy, we disclose this issue for the information of the legislature and make no recommendation at this time.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Governor's Office for each of the fiscal years ended June 30, 2010, and 2009. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Governor's Office for each of the fiscal years ended June 30, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 5, 2010

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2009	\$ <u>(507,255)</u>	\$ <u>228,864</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	409	164,341
Nonbudgeted Revenues & Transfers-In	12,208	
Prior Year Revenues & Transfers-In Adjustments		(5,126)
Direct Entries to Fund Balance	<u>6,073,398</u>	<u>(161,690)</u>
Total Additions	<u>6,086,015</u>	<u>(2,475)</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	6,033,135	162,918
Nonbudgeted Expenditures & Transfers-Out		11,335
Prior Year Expenditures & Transfers-Out Adjustments	<u>(2,840)</u>	
Total Reductions	<u>6,030,295</u>	<u>174,253</u>
FUND BALANCE: June 30, 2010	\$ <u><u>(451,535)</u></u>	\$ <u><u>52,136</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2008	\$ <u>(565,584)</u>	\$ <u>125,103</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	344	149,310
Nonbudgeted Revenues & Transfers-In	675	
Prior Year Revenues & Transfers-In Adjustments		(38,230)
Direct Entries to Fund Balance	<u>6,522,353</u>	<u>134,908</u>
Total Additions	<u>6,523,372</u>	<u>245,988</u>
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	6,466,195	142,209
Prior Year Expenditures & Transfers-Out Adjustments	<u>(1,152)</u>	<u>18</u>
Total Reductions	<u>6,465,043</u>	<u>142,227</u>
FUND BALANCE: June 30, 2009	\$ <u><u>(507,255)</u></u>	\$ <u><u>228,864</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 873		\$ 873
Charges for Services		\$ 26,576	26,576
Grants, Contracts, and Donations		132,639	132,639
Transfers-in	11,335		11,335
Miscellaneous	409		409
Total Revenues & Transfers-In	<u>12,617</u>	<u>159,215</u>	<u>171,832</u>
Less: Nonbudgeted Revenues & Transfers-In	12,208		12,208
Prior Year Revenues & Transfers-In Adjustments		(5,126)	(5,126)
Actual Budgeted Revenues & Transfers-In	<u>409</u>	<u>164,341</u>	<u>164,750</u>
Estimated Revenues & Transfers-In	1,274	256,818	258,092
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (865)</u>	<u>\$ (92,477)</u>	<u>\$ (93,342)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Taxes	\$ (750)		\$ (750)
Charges for Services		\$ (5,924)	(5,924)
Grants, Contracts, and Donations		3,447	3,447
Miscellaneous	(115)	(90,000)	(90,115)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (865)</u>	<u>\$ (92,477)</u>	<u>\$ (93,342)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 675		\$ 675
Charges for Services		\$ 28,573	28,573
Grants, Contracts, and Donations		82,507	82,507
Miscellaneous	344		344
Total Revenues & Transfers-In	1,019	111,080	112,099
Less: Nonbudgeted Revenues & Transfers-In	675		675
Prior Year Revenues & Transfers-In Adjustments		(38,230)	(38,230)
Actual Budgeted Revenues & Transfers-In	344	149,310	149,654
Estimated Revenues & Transfers-In	4,207	160,376	164,583
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,863)	\$ (11,066)	\$ (14,929)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Taxes	\$ (1,207)		\$ (1,207)
Charges for Services		\$ (2,227)	(2,227)
Grants, Contracts, and Donations		(8,839)	(8,839)
Miscellaneous	(2,656)		(2,656)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (3,863)	\$ (11,066)	\$ (14,929)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT FOR THE FISCAL YEAR ENDED JUNE 30, 2010										
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AIR TRANSPORTATION PROGRAM	CENTRALIZED SERVICES PROGRAM	CITIZENS' ADVOCATE OFFICE	COORDINATOR OF INDIAN AFFAIRS	EXECUTIVE RESIDENCE OPERATIONS	EXECUTIVE OFFICE PROGRAM	LIEUTENANT GOVERNOR'S OFFICE	MENTAL DISABILITIES BOARD OF VISITORS	OFFICE OF BUDGET & PROGRAM PLANNING	Total
Personal Services										
Salaries	\$ 81,941	\$ 230,101	\$ 67,260	\$ 123,838	\$ 47,216	\$ 1,451,655	\$ 233,694	\$ 238,867	\$ 1,073,146	\$ 3,547,718
Employee Benefits	32,065	68,727	26,829	29,514	23,326	391,799	68,970	85,138	312,237	1,038,605
Total	114,006	298,828	94,089	153,352	70,542	1,843,454	302,664	324,005	1,385,383	4,586,323
Operating Expenses										
Other Services	11,434	42,030	2,091	7,410	5,288	436,593	7,660	25,834	59,148	597,488
Supplies & Materials	51,891	66,784	940	3,552	37,147	36,261	2,119	5,923	23,032	227,649
Communications	1,186	7,676	7,266	5,238	3,604	81,956	6,189	10,148	28,213	151,476
Travel	1,807			3,512	320	70,043	12,718	22,176	5,739	116,315
Rent				5,184	15	101,952	15,588	4,914	57,553	185,206
Repair & Maintenance	126,334	940		537	1,954	15,076	948	738	5,875	152,402
Other Expenses	1,484	4,106	305	2,520	2,236	106,798	2,203	4,889	46,511	171,052
Total	194,136	121,536	10,602	27,953	50,564	848,679	47,425	74,622	226,071	1,601,588
Equipment & Intangible Assets										
Equipment		5,302								5,302
Total		5,302								5,302
Transfers-out										
Fund transfers						11,335				11,335
Total						11,335				11,335
Total Expenditures & Transfers-Out	\$ 308,142	\$ 425,666	\$ 104,691	\$ 181,305	\$ 121,106	\$ 2,703,468	\$ 350,089	\$ 398,627	\$ 1,611,454	\$ 6,204,548
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 306,837	\$ 425,666	\$ 80,282	\$ 181,305	\$ 121,106	\$ 2,615,761	\$ 350,089	\$ 398,627	\$ 1,550,622	\$ 6,030,295
State Special Revenue Fund	1,305		24,409			87,707			60,832	174,253
Total Expenditures & Transfers-Out	308,142	425,666	104,691	181,305	121,106	2,703,468	350,089	398,627	1,611,454	6,204,548
Less: Nonbudgeted Expenditures & Transfers-Out						11,335				11,335
Prior Year Expenditures & Transfers-Out Adjustments	147					(3,148)	375	20	(234)	(2,840)
Actual Budgeted Expenditures & Transfers-Out	307,995	425,666	104,691	181,305	121,106	2,695,281	349,714	398,607	1,611,688	6,196,053
Budget Authority	349,127	494,854	104,845	191,919	125,767	2,754,268	356,798	407,588	7,403,240	12,188,406
Unspent Budget Authority	\$ 41,132	\$ 69,188	\$ 154	\$ 10,614	\$ 4,661	\$ 58,987	\$ 7,084	\$ 8,981	\$ 5,791,552	\$ 5,992,353
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 34,437	\$ 69,188	\$ 63	\$ 10,614	\$ 4,661	\$ 45,360	\$ 7,084	\$ 8,981	\$ 3,791,475	\$ 3,971,863
State Special Revenue Fund	6,695		91			13,627			1,458,477	1,478,890
Federal Special Revenue Fund									491,600	491,600
Internal Service Fund									50,000	50,000
Unspent Budget Authority	\$ 41,132	\$ 69,188	\$ 154	\$ 10,614	\$ 4,661	\$ 58,987	\$ 7,084	\$ 8,981	\$ 5,791,552	\$ 5,992,353

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	AIR TRANSPORTATION PROGRAM	CENTRALIZED SERVICES PROGRAM	CITIZENS' ADVOCATE OFFICE	COORDINATOR OF INDIAN AFFAIRS	EXECUTIVE RESIDENCE OPERATIONS	EXECUTIVE OFFICE PROGRAM	LIEUTENANT GOVERNOR'S OFFICE	MENTAL DISABILITIES BOARD OF VISITORS	OFFICE OF BUDGET & PROGRAM PLANNING	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	\$ 79,845	\$ 217,362	\$ 68,268	\$ 115,182	\$ 43,740	\$ 1,368,494	\$ 231,311	\$ 223,172	\$ 1,130,740	\$ 3,478,114
Employee Benefits	32,848	68,223	27,051	28,901	22,464	385,114	69,214	78,725	331,611	1,044,151
Total	112,693	285,585	95,319	144,083	66,204	1,753,608	300,525	301,897	1,462,351	4,522,265
Operating Expenses										
Other Services	10,008	21,103	3,102	5,136	6,990	436,528	8,438	23,129	81,375	595,809
Supplies & Materials	83,947	28,671	31	1,316	40,460	21,663	333	4,952	15,250	196,623
Communications	1,581	3,320	8,180	3,818	1,193	62,721	4,520	6,156	13,546	105,035
Travel	4,373			1,784	356	88,844	14,835	24,661	2,549	137,402
Rent				5,028		98,708	15,112	4,818	55,704	179,370
Repair & Maintenance	74,304	531		590	2,662	12,126	888	2,226	4,743	98,070
Other Expenses	267	583	41	824	2,082	89,764	2,727	3,559	31,781	131,628
Total	174,480	54,208	11,354	18,496	53,743	810,354	46,853	69,501	204,948	1,443,937
Equipment & Intangible Assets										
Equipment	630,000	11,068								641,068
Total	630,000	11,068								641,068
Total Expenditures & Transfers-Out	\$ 917,173	\$ 350,861	\$ 106,673	\$ 162,579	\$ 119,947	\$ 2,563,962	\$ 347,378	\$ 371,398	\$ 1,667,299	\$ 6,607,270
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 917,173	\$ 350,861	\$ 80,060	\$ 162,579	\$ 119,947	\$ 2,539,219	\$ 347,378	\$ 371,398	\$ 1,576,428	\$ 6,465,043
State Special Revenue Fund			26,613			24,743			90,871	142,227
Total Expenditures & Transfers-Out	917,173	350,861	106,673	162,579	119,947	2,563,962	347,378	371,398	1,667,299	6,607,270
Less: Nonbudgeted Expenditures & Transfers-Out										
Prior Year Expenditures & Transfers-Out Adjustments				(2)	(601)	(830)		69	232	(1,132)
Actual Budgeted Expenditures & Transfers-Out	917,173	350,861	106,673	162,581	120,548	2,564,792	347,378	371,329	1,667,067	6,608,402
Budget Authority	927,376	365,689	108,119	165,270	124,598	2,654,163	353,208	387,143	6,532,137	11,617,703
Unspent Budget Authority	\$ 10,203	\$ 14,828	\$ 1,446	\$ 2,689	\$ 4,050	\$ 89,371	\$ 5,830	\$ 15,814	\$ 4,865,070	\$ 5,009,301
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 9,403	\$ 14,828	\$ 1,059	\$ 2,689	\$ 4,050	\$ 39,115	\$ 5,830	\$ 15,814	\$ 2,057,488	\$ 2,150,276
State Special Revenue Fund	800		387			50,256			2,217,451	2,268,894
Federal Special Revenue Fund									499,129	499,129
Internal Service Fund									91,002	91,002
Unspent Budget Authority	\$ 10,203	\$ 14,828	\$ 1,446	\$ 2,689	\$ 4,050	\$ 89,371	\$ 5,830	\$ 15,814	\$ 4,865,070	\$ 5,009,301

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana Office of the Governor and Lieutenant Governor

Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2010

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General and State Special Revenue). In applying the modified accrual basis, the office records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Office State Special Revenue Funds primarily include activity related to agreements between other state agencies and the Governor's Office (including funding for the Math and Science Initiative from federal Workforce Investment Act funds at the Department of Labor and Industry in fiscal year 2009-10), as well as the Environmental Contingency, Air Transportation, and Citizen's Advocate accounts.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balance for each of the fiscal years ended June 30, 2009, and June 30, 2010.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General Fund for fiscal years 2008-09 and 2009-10 and the State Special Revenue Fund for fiscal year 2008-09 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. During fiscal year 2009-10, the office's \$161,690 fund balance in the Environmental Contingency account in the State Special Revenue Fund was moved to the Department of Natural Resources and Conservation.

4. Budgeted Revenues & Transfers-In Over (Under) Estimated

A \$90,000 revenue estimate was established in both the Miscellaneous class and the Grants, Contracts, and Donations class for the fiscal year ended June 30, 2010. The related collections were recorded in the Grants, Contracts, and Donations class, resulting in Budgeted Revenue & Transfers-In Over (Under) Estimated of (\$90,000) in the Miscellaneous class for the fiscal year ended June 30, 2010.

5. Prior Year Revenues & Transfers-In Adjustments

The Prior Year Revenues & Transfers-In Adjustments of (\$38,230) and (\$5,127) in the State Special Revenue Fund on the Schedule of Changes in Fund Balances and the Schedule of Total Revenues & Transfers-In for each fiscal year 2008-09 and 2009-10, respectively, represent the amount of revenue, primarily from cash collections, recorded in excess of expenditures made under agreements with other state agencies during the prior fiscal year and returned to the agencies during the current fiscal year.

6. Unspent Budget Authority

The significant unspent budget authority amounts on the Schedule of Total Expenditures & Transfers-Out relate to the Office of Budget and Program Planning program. Most of the fiscal year 2008-09 and 2009-10 remaining authority in this

program related to the personal services contingency authorized by House Bill 13 of the 60th and 61st Legislatures, respectively. The remaining personal services contingency authority by fund and fiscal year is as follows.

Fiscal Year	2008-09	2009-10
General Fund	\$1,997,007	\$3,679,411
State Special Revenue Fund	2,203,727	1,428,671
Federal Special Revenue Fund	499,129	491,600
Internal Service Fund	91,002	50,000
Total	\$4,790,865	\$5,649,682

7. Personal Services Expenditures

The personal services expenditures included on the Schedule of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2009, and June 30, 2010, do not include the salaries and benefits of employees loaned to the office by other state agencies. We estimate salaries and benefits of employees loaned to be approximately \$99,693 in fiscal year 2008-09 and \$77,761 in fiscal year 2009-10.

8. Equipment Expenditures

The equipment expenditures of \$630,000 in the Air Transportation Program were for the purchase and installation of two engines in the Governor's airplane. The Governor's Office received a restricted, one time only, appropriation for this purpose.

OFFICE OF THE
GOVERNOR AND
LIEUTENANT GOVERNOR

OFFICE RESPONSE

OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR



B-1
JOHN BOHLINGER
LT. GOVERNOR

October 27, 2010

Ms. Tori Hunthausen, C.P.A.
Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59602-1705

RECEIVED
OCT 27 2010
LEGISLATIVE AUDIT DIV.

Dear Ms. Hunthausen:

The following are the responses to the recommendations contained in the audit of the Montana Office of the Governor and Lieutenant Governor for the two fiscal years ending June 30, 2010.

Recommendation #1:

We recommend the Governor's Office:

- A. Monitor and test internal controls as required by state accounting policy.
- B. Comply with its established control policy to have separate people enter and approve transaction journals, and a program manager approve each payment.

Response: Concur.

- A. The internal control procedures will be tested periodically.
- B. The practice has been implemented. However, as stated in our October 2, 2008 audit response we still do not believe that even the best internal control procedures, which are designed primarily to prevent fraud, waste and abuse, can be effective in preventing minor account code errors, especially in small agencies.

Recommendation #2:

We recommend that the Governor's Office implement its State Fiscal Stabilization Fund monitoring plan and protocol to comply with federal requirements.

Response: Concur. The Governor's Office in conjunction with the Office of Public Instruction, Office of the Commissioner of Higher Education, Department of Corrections, Department of Public Health and Human Services, and the Long Range Building Program within the Department of Administration submitted a joint State Fiscal Stabilization Fund (SFSF) Monitoring Plan to the U.S. Department of Education on March 12, 2010 in compliance with the U.S. Department of Education's deadline. The Governor's Office of Budget and Program Planning (OBPP) conducted extensive outreach and training to ensure that each of the five state agencies that were appropriated State Fiscal Stabilization Funds by the 61st Legislature were in compliance with federal laws, regulations and program compliance requirements dating back to April of 2009. In addition to outreach and training, OBPP implemented a statewide reporting process which includes monitoring financial activity as recorded on SABHRS and a description of the use of funds for all HB 645 appropriations and ARRA grants received by the state including SFSF recipients beginning in May of 2009. The Governor's Office has and will continue to implement the written SFSF monitoring plan and protocol in addition to ongoing quarterly review and reconciliation of SFSF ARRA 1512 reports to remain in compliance with federal laws, regulations, and SFSF program requirements.

Recommendation #3:

We recommend the Governor's Office document compliance with state law regarding extradition expenses.

Response: Concur. A bill draft has been prepared to conform § 46-30-411(2), MCA with the long standing practice of how payments are made to out of state prisoner transport companies. We hope the Legislative Audit Committee members will support the bill when it is introduced.

Recommendation #4:

We recommend the Governor's Office comply with the requirement of state law to not retransfer appropriation authority previously transferred from one fiscal year to another.

Response: Concur.

Recommendation #5:

We recommend the Governor's office spend non-general fund money first for Air Transportation program costs in accordance with state law.

Response: Concur. We will have appropriation language in the 2013 biennium budget request to expend the funds.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Viv Hammill". The signature is written in a cursive, flowing style.

Viv Hammill,
Chief of Staff